

**State Water Infrastructure Authority**  
**North Carolina Department of Environmental Quality**  
**September 11, 2019**  
**Meeting Minutes**

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**State Water Infrastructure Authority Members Attending Meeting**

- Kim Colson, Chair; Director, Division of Water Infrastructure
- Melody Adams, Director, Rural Grants/Programs, Rural Development Division, NC Dept. of Commerce
- Greg Gaskins, Deputy Treasurer, State & Local Finance Division; Secretary, Local Government Commission
- Leila Goodwin, Water Resources Engineer
- Maria Hunnicutt, Manager, Broad River Water Authority
- Dr. Bernadette Pelissier
- Cal Stiles, Cherokee County Commissioner
- Charles Vines, Mayor of Bakersville
- Juhann Waller, Principal, JC Waller & Associates, PC

**Division of Water Infrastructure Staff Attending Meeting**

- Cathy Akroyd, Public Information Officer
- Francine Durso, Special/Technical Issues Senior Program Manager
- Jennifer Haynie, Environmental and Special Projects Unit Supervisor
- Jessica Leggett, Environmental and Special Projects Unit Project Manager
- Jon Risgaard, State Revolving Fund Section Chief
- Amy Simes, Senior Program Manager

**Department of Justice Staff Attending Meeting**

- Jill Weese, NC Department of Justice; Assistant Attorney General, Environmental Division

**Item A. Call to Order**

Mr. Colson opened the meeting and reminded the members of the State Water Infrastructure Authority (SWIA) of General Statute 163A which states that any member who is aware of a known conflict of interest or an appearance of a conflict of interest with respect to matters before the Authority today is required to identify the conflict or appearance of a conflict at the time the conflict becomes apparent.

**Item B. Approval of Meeting Minutes**

Mr. Colson presented the draft meeting minutes from the July 10, 2019 Authority meeting for approval.

**Action Item B:**

- Dr. Pelissier made a motion to approve the July 10, 2019 Authority meeting minutes. Mr. Vines seconded the motion. The motion passed unanimously.

**Item C. Attorney General's Office Report**

Ms. Weese asked the Authority to notify the Attorney General's office if aware of unethical pricing situations related to hurricane cleanup.

**Item D. Chair's Remarks**

Mr. Colson stated that Authority members Maria Hunnicutt and Bernadette Pelissier have been reappointed for 2 years. Mr. Colson also introduced the new SRF Section Chief, Jon Risgaard, to the Authority.

Mr. Colson stated that the deadline for applications for the Fall 2019 funding round is September 30, 2019 and that applications are being accepted for all the funding programs. The Division held “How to Apply” training for all programs in Sylva, Valdese, Kernersville, Winterville, Pembroke and Research Triangle Park. There were over 150 attendees.

The House and Senate budget was vetoed and discussions are continuing. Mr. Colson indicated the budget would be discussed more in the Viable Utility Grant agenda item.

#### **Item E. Welcome from the City of Hickory**

Mr. Kevin Greer, Public Utilities Director, welcomed the Authority to Hickory and provided a brief history of their water and wastewater utility. Mr. Greer noted the City’s flexibility and availability to provide many kinds of service or partnerships. The city has approximately 28 interlocal agreements in the area. Mr. Greer stated if costs can be spread over many users, then the costs for all are less. He also stated that building trust with other local governments that a utility is serving is key.

#### **Item F. Communications Update**

Ms. Akroyd, the Division’s Public Information Officer, presented an update about the Division’s activities including meetings, presentations, events and outreach.

#### **Item G. Presentations by Local Governments & Utility Organizations**

##### **Rick Howell, City Manager, City of Shelby**

Mr. Howell has worked with the City of Shelby for 14 years and has over 32 years of local government experience. He believes costs are increasing because of increasing workloads for contractors, costs of materials, and fewer qualified contractors because many closed during the recession. Mr. Howell described his approach to informing the mayor and council members about real issues in their water and sewer utility. If he needed to go out in the field and look at sewer spills (even on nights, weekends, and holidays) he would take the mayor and/or council members with him to assess. Also, it was necessary to spend a good deal of time educating council members on a one-on-one basis about “why”, not just “how much.” Having a well-run and maintained sewer system is key for economic development, quality of life, and the environment. Mr. Howell provided pictures and once brought a piece of terra cotta pipe to a council meeting and broke it with a hammer to show council members the fragility of parts of their sewer system. The City’s rate increases were based on data and facts (i.e. what’s going on in our system? How will the money be used and why this is important.) Mr. Howell discussed regionalization regarding the City of Shelby. Whatever the agreement may look like, Mr. Howell feels it needs to be done as it is the right thing to do and will help with costs by having more users and fair rates. Mr. Howell concluded the presentation by asking which luxuries could you live without: cell phone, internet, cable tv, electricity, water, sewer? Following Mr. Howell’s presentation, the Authority discussed the following topics:

- Was there any push back from council members? Mr. Howell stated there was some but not much as he provided council members talking points containing facts and information on what to say to citizens.
- What are the average water and sewer bills for Shelby? Mr. Howell answered the average water bill is \$26 and the average sewer bill is \$36. The City does not include any usage in its base charge.
- How do you plan for future rehabilitation work? Mr. Howell stated as we retire debt we are able to take on new debt for rehabilitation work.
- Mr. Gaskins commended Mr. Howells staggered debt process and asked about population and growth in Shelby. Mr. Howell stated that population growth has been stagnant for the past 15 years but fortunately industrial growth has picked up.

- The idea of annual elected officials “education requirements” similar to real estate agents would be beneficial. Mr. Howell stated some Councils of Governments (COGs) help with training and other training includes the Local Elected Leaders Academy sponsored by the NC Association of County Commissioners and the UNC School of Government; and the Essentials of Municipal Government sponsored by the NC League of Municipalities and the UNC School of Government. Mr. Vines concluded that elected official training needs to be required to better understand debt, debt service and planning for 25 years ahead.

#### **Dennis Falder, Assistant Public Works & Utilities Director, City of Newton**

Mr. Falder discussed how being a recipient of an Asset Inventory and Assessment (AIA) grant has really benefited the City of Newton. They were able to find a large source of inflow and infiltration from a sewer main that is in/near the bed of a creek, and identified all work that needs to be completed in their sewer system. They were able to hire a full-time project manager to ensure projects are being completed properly, which has really changed how work is getting done. Having a CIP has helped determine if the work can be completed by staff or if that work needs to be a part of the CIP. The City is still figuring out what needs to be added to the CIP for work that was just found from their AIA grant. Mr. Falder added the AIA grant had a direct environmental benefit in protecting water quality by finding and fixing a major I/I problem.

#### **Item H. Fixing Affordability Challenges Requires a Full Toolbox**

Mr. Jon Davis, Executive Vice President of Raftelis Financial Consultants, Inc., gave a presentation regarding affordability challenges. Mr. Davis discussed how many communities have chronic low-income populations in their service areas, resulting in customers that cannot afford essential water and sewer services. This affects public utilities by lower collections rates, more shut-offs, public health concerns, and a decreased ability to adjust rates. Over time, incomes are moving away from the median, and more toward either the high or low extremes. A key problem is that many customers earn too much to obtain social services, but not enough to live on what they earn. Mr. Davis also provided possible solutions to the affordability challenges including income-based billing (a way to index a bill based on customers’ ability to afford), free/reduced cost units of service, and discount billing programs, but noted that there are obstacles in North Carolina to these type of solutions.

Mr. Davis also discussed rate structures and how they affect affordability. He noted that a rate structure with a minimum charge or high fixed charge may cause customers to pay for services they did not use, but that revenue becomes unpredictable if using only a volumetric rate structure. As utilities develop their rate structures they may be able to consider a balance between affordability-friendly rates and the stability of the utility’s finances. Following the presentation, the Authority discussed the following topics:

- What are the obstacles in NC to the solutions mentioned? Mr. Davis answered that a special class of customer must be established to allow access to reduced cost programs; in NC, special classes of customers are not allowed to be established.
- How prevalent is income-based billing across the country? Mr. Davis answered approximately 50% of states allow this and it is mostly seen in urban areas with multi-billion-dollar consent decrees and many low income customers. Recently Philadelphia capped customer utility bills at a percentage of their income but this means that every bill is customized and it is very costly to the utility to do this.
- What about a large percentage of low to moderate income customers with a lot of infrastructure issues that need to be fixed? Mr. Davis stated that gaining economy of scale is important and that teaming partnerships can be a key part of the solution for this situation.
- On the topic of affordability-friendly versus revenue stability, Mr. Davis compared it to a pendulum swinging. During drought years, conservation was crucial and inclining block rates become more popular. Then, as utilities saw less revenue, the pendulum began to swing the other way. Mr. Davis added the water and sewer business is the most capital intensive business there is.

- An issue discussed was that elected officials have control over water and sewer bills, unlike bills for electrical service. Mr. Gaskins added that a utility must operate as an enterprise fund and the issue of low income customers cannot be solved by the enterprise fund.
- Mr. Davis added he is seeing high sewer bills drive people from certain areas, especially small areas.

#### **Items I & J. Viable Utility Distressed Criteria, Performance Measures & Process Discussion**

Mr. Colson began with providing a brief legislative history of why we are discussing the Viable Utility Reserve (VUR). As we discuss this process, every situation will be different and as we go through the process it may need refining as we gain experience.

Mr. Gaskins added in November 2019 they will present their process to the Local Government Commission and show how the Unit Assistance List process and implementation process has changed based on lessons learned. The LGC and SWIA will work together on all of these issues. At this time, there are 10 units that have water and/or sewer issues that the LGC is most concerned about; the LGC has already taken over two units – the Town of Eureka, and Cliffside Sanitary District.

Mr. Colson added that the text was passed through legislation but does not contain any funding. The House overrode the veto early this morning which still has to go through the Senate. The conference budget contained \$9 million. There is a recognition that the need and the costs are there.

Mr. Colson reviewed a proposed flowchart showing a draft process for VUR implementation. Authority members initially discussed the following:

- It seems that there should be performance measures in more than one place. Mr. Colson answered the flowchart is simplified and performance measures will be included as needed in the flowchart.
- Is there an incentive to resolve the problem rather than let the problem continue? Mr. Colson answered there may be situations where there is an obvious solution and a long-term solution could be implemented relatively quickly. There are probably many situations in which not enough is known to find a solution quickly. Mr. Gaskins noted that there are many communities on which his staff has spent a lot of time that are still not close to coming up with a solution. Even in a case where we know a lot and can develop a working agreement, it would probably take more than a year to have all parties agree to sign it.

Ms. Simes and Ms. Leggett gave the presentation about possible distressed criteria, performance measures and action plan requirements. Mr. Colson added that these items should be viewed in the context of each other because they are all integral to the overall VUR process. Ms. Durso gave the presentation on the viable utility process and Ms. Haynie presented on the education component. Following the presentations, the Authority discussed the following topics:

- It may be helpful to look at what things can be measured and how those metrics will be used; maybe called “measurable metrics.” Some of them have a value that can be measured and there are other things that cannot be directly measured and are much more subjective. “Metrics” are what you measure, while criteria are the thresholds to be on the distressed unit list.
- Mr. Jon Davis with Raftelis stated that the most critical indicator as to whether a utility is performing or non-performing is its human capital, especially regarding continuity of leadership and institutional knowledge. One of the easiest things to evaluate is whether or not a utility has the needed human capital.
- There is a need to quickly be able to define units as distressed and also to know which of the criteria are the most important.
- Consideration is needed regarding how we develop information, update it, and keep it updated to use for decision-making, especially if a utility’s situation changes over time, such as if a large user

closes or there are hurricane impacts. We need to understand which LGUs meet the criteria and which may be close to meeting the criteria.

- Will units apply to enter this process or will SWIA/LGC make this determination? Mr. Colson stated that the legislation states that SWIA and the LGC will identify distressed units and establish the requirements. There may be a voluntary aspect to this for units who realize that they aren't viable.
- What entity will help the utilities develop the action plans and ensure that the actions are taken? Mr. Colson stated that the State will likely need to take a more active role. It could be a combination of the Division and the LGC to set up the contracts for asset inventory and assessment and rate study. The value of the Fair Bluff/Fairmont pilot project was to learn how much external help is needed by struggling utilities.
- Authority members discussed organizational issues and the need for elected officials to be held much more accountable for fulfilling their responsibilities. A program with real consequences for failing to take actions to become proactive and achieve outcomes is needed, as it is key to ensure that any funds are used for the intended purposes. Elected official leadership needs to support utility managers and managers should not be afraid to speak to leadership about what is needed.
- The goal should be to move utilities toward viability, get off of the distressed list and not return to the list. However, the initial \$9 million will not be enough to address the issues that are already known. It was noted by the Authority that units should not all receive 100% grant funding; the affordability criteria should be used to determine the amount of funds that units may be required to contribute to the work.

#### **Item K. 2020 Authority Meeting Dates**

Ms. Leggett presented the proposed 2020 Authority meeting dates. She noted the change in the September 2020 meeting date due to the Labor Day holiday being later next year.

#### **Action Item L:**

- Mr. Vines made a motion to approve the 2020 Authority Meeting Dates. Mr. Waller seconded the motion. The motion passed unanimously.

#### **Item L. Fiscal Year 2018-2019 Annual Report**

Ms. Durso presented the revised Fiscal Year 2018-2019 Annual Report to the Authority which addressed two key changes suggested by the Authority at its July 2019 meeting: (1) a recommendation that the Authority be provided with the flexibility to establish conditions in any grant under its purview; (2) a statement that the Authority is concerned about the General Assembly's actions to award grant funds to projects through its budget process which essentially bypasses the Authority's prioritization and award process. The Authority asked if stronger language that could be used on the second recommendation and Ms. Durso asked Authority members to send her their specific recommendations to revise the language. The Authority requested that an additional recommendation be added to note that working with units that may be identified as distressed under the Viable Utility Reserve will likely require additional staffing for both the Department of Environmental Quality and the Department of State Treasurer. Ms. Durso noted that if the revised language is acceptable to the Authority, it can give final approval of the Annual Report at the October 2019 meeting.

#### **Item M. Master Plan Outreach Activities Update**

Ms. Durso updated the Authority on presentations about the Statewide Infrastructure Master Plan, including meetings with the 16 Councils of Governments (COGs) at their regularly scheduled meetings which are typically attended by elected officials. The Division has received requests to conduct in-depth workshops at four COGs in 2020 and noted that four such workshops have already been conducted. The COG presentations

have been the primary vehicle for Master Plan outreach this year, along with presentations at professional society meetings and conferences.

In August, the Division presented at a Regional Roundtable sponsored by the Southeastern Economic Development Commission (SEDC) which covers 12 counties within 3 southeastern COGs. The Division also presented at a Financial Management Workshop sponsored by the Southeast Rural Community Assistance Project (SERCAP) and the LGC, which was attended by over 60 people including mayors, county commissioners, town and county managers, utility directors and finance officers.

**Item N. Informal Comments from the Public**

Chair Colson stated that public comments could be made at this time with the reminder that in accordance with the Authority's Internal Operating Procedures, comments must be limited to the subject of business falling within the jurisdiction of the Authority and should not be project specific. There were no informal comments from the public.

**Item O. Concluding Remarks by Authority Members, Chair and Counsel**

Authority members thanked staff and guest speakers for information provided before and at the meeting. Authority members emphasized the need for an education component for elected officials, local government staff, and the public. Authority members again expressed concern that our funding program dollars are being earmarked and could potentially affect the Authority's ability to fund quality projects that promote utility viability, and highlighted to need to address this concern in the 2018-2019 Annual Report. Concern was also expressed regarding the General Assembly assigning more responsibility to SWIA and the LGC but not providing the funding and additional staffing that will be needed.

The next Authority meeting will be October 9, 2019 in Raleigh, NC.

**Item P. Adjourn** – The meeting was adjourned.